



Office of Governor Ned Lamont
STATE OF CONNECTICUT

**House Bill 6633 –
An Act Restructuring Unemployment Insurance Benefits and Improving Fund Solvency
March 17, 2021**

Senator Fonfara, Representative Scanlon, Senator Martin, Representative Cheeseman, and honorable members of the Finance, Revenue, and Bonding Committee, I'm Jonny Dach, Governor Lamont's policy director. Along with Labor Commissioner Kurt Westby and Economic and Community Development Commissioner David Lehman, I applaud the committee for raising House Bill 6633 and appreciate the opportunity to help inform the committee's discussion.

During the Great Recession, Connecticut borrowed \$1.25 billion from Washington—a debt it repaid, plus \$85 million in interest, over the next six years. During the current recession, Connecticut has borrowed \$638 million and counting—another debt it will repay, plus interest, as the economy struggles to recover.

House Bill 6633 is Connecticut's best chance to prevent that story from repeating yet again and to benefit the state's working families, small businesses, and overall economy. We hope the stakeholders impacted by the insolvency of Connecticut's Unemployment Insurance Trust Fund will be able to work off this bill to arrive at a fairer and more intellectually honest unemployment insurance system.

That system is funded through three taxes. The heart of the program is a state-level experience-rated tax that ranges from 0.5% to 5.4% for each employer, based on the amount of benefits drawn by that employer's employees. The experience tax is augmented, as needed to maintain fund balance, by a state-level, economy-wide solvency tax of up to 1.4%. Finally, the federal government collects at least 0.6% for program administration; that rate automatically increases to pay off any federal loans.

All of those taxes are levied not against total payroll, but against a "taxable wage base": the first \$15,000 an employer pays an employee on Connecticut's side; the first \$7,000 an employer pays an employee on the federal one. Because those bases are not indexed to inflation, their real dollar value has declined steadily and significantly over time. The percent of total wages subject to UI taxes has declined with them, to a record low of 22.9%.

Although allowing most wages to escape unemployment taxes might sound like a good deal, it actually threatens fund solvency, reduces the power of the experience rating system, and disproportionately burdens small businesses and working families. Fundamentally, it prevents unemployment insurance from functioning like an insurance product, meaning other business are forced to subsidize high-turnover ones and those high-turnover ones can lay off employees with relative impunity. More information on the declining wage base and its dangers is in the attached slides.

The low taxable maximum also divorces the taxable wage base from the benefit base. The average employer of a worker eking out a \$15,000 living contributes \$720, or 4.8% of her wages, to state unemployment taxes—the same amount that employer contributes on behalf of a 90th percentile man enjoying a \$114,480 salary (.63% of wages). That injustice is compounded by our charging employers rather than taxing employees directly, which means low-wage workers more likely to hold two jobs lose money two times over; if she takes another \$15,000 job, her second employer will contribute a second \$720. But because we calculate benefits based on what you earned, not what was contributed, if both workers were laid off, he would collect \$667 a week and she would receive only \$144.

Effective in 2024, House Bill 6633 broadens the taxable wage base to align with the benefit base. It also reduces tax rates: the minimum experience tax rate from 0.5% to 0%, and the maximum solvency tax rate from 1.4% to 0.5%. Based on extensive modeling by the Connecticut Department of Labor, had its broader base and lower rates applied in 2019, the UI Trust Fund would have closed the year with an additional \$63 million while 68% of employers representing 54% of employees would have paid lower UI taxes.

House Bill 6633 also proposes three benefit reforms endorsed in previous years by the Employment Security Advisory Board chartered in section 31-250a of the general statutes. The first reform defers, but does not deny, UI benefits until after severance payments for all employees. (Those benefits are already deferred for employees who did not choose to waive an independent claim to receive their severance package.) The second reform delays the next annual \$18 increase in the maximum weekly benefit amount by one year. The third reform raises the minimum base period earnings required to qualify for unemployment benefits. Together, those reforms would reduce demand on the fund by \$58 million, nearly matching the increased contributions expected under the broader base and lower rates. The severance pay change accounts for \$50 million of that reduction and would also reduce burdens on DOL staff.

Finally, House Bill 6633 proposes three recession recovery measures based on lessons learned from the COVID-19 pandemic. The first measure reduces the maximum solvency tax rate during recessions. The second measure, inspired by EO 7W and bipartisan bills in the Labor Committee, reduces experience tax rate increases when those increases are due to sector-wide economic shocks. The third, inspired the CARES Act and the American Rescue Plan, noncharges employers for benefits paid out during recessions through the Shared Work program. Shared Work spares workers the hardships of full unemployment and helps employers manage business cycles and seasonal adjustment. Each of those measures will prevent tax increases on employers already struggling to return to full employment.

A robust, sustainably funded unemployment insurance system is Connecticut's most important tool for keeping our families out of poverty and our economy in motion during a recession. The administration looks forward to working with this committee and every interested stakeholder on a bipartisan path forward.

UI Taxes – Fast Facts

- UI taxes are not small potatoes
 - \$45B nationally – more than 1% of federal revenues
 - \$700M in CT – almost 4% of appropriated funds
 - .9% of average employer payroll
 - Not *huge* potatoes – employer FICA tax rate is 7.65% of payroll
- UI taxes are actually three taxes
 - SUTA – Experience Rating, .5%-5.4% | SUTA – Solvency Tax, 0% or 1.4% | FUTA, usually .6%
 - Collected against a “taxable wage base” (TWB): \$15k SUTA; \$7k FUTA
- Program has to be funded – you pay it forward or you pay it later, with interest
- Three major problems: insolvent fund, inadequate experience range, regressive rates
- Balanced solution: Restored base/lower rates + ESAB-endorsed benefit reforms
 - Add in win-win recession recovery measures to get back to full employment faster

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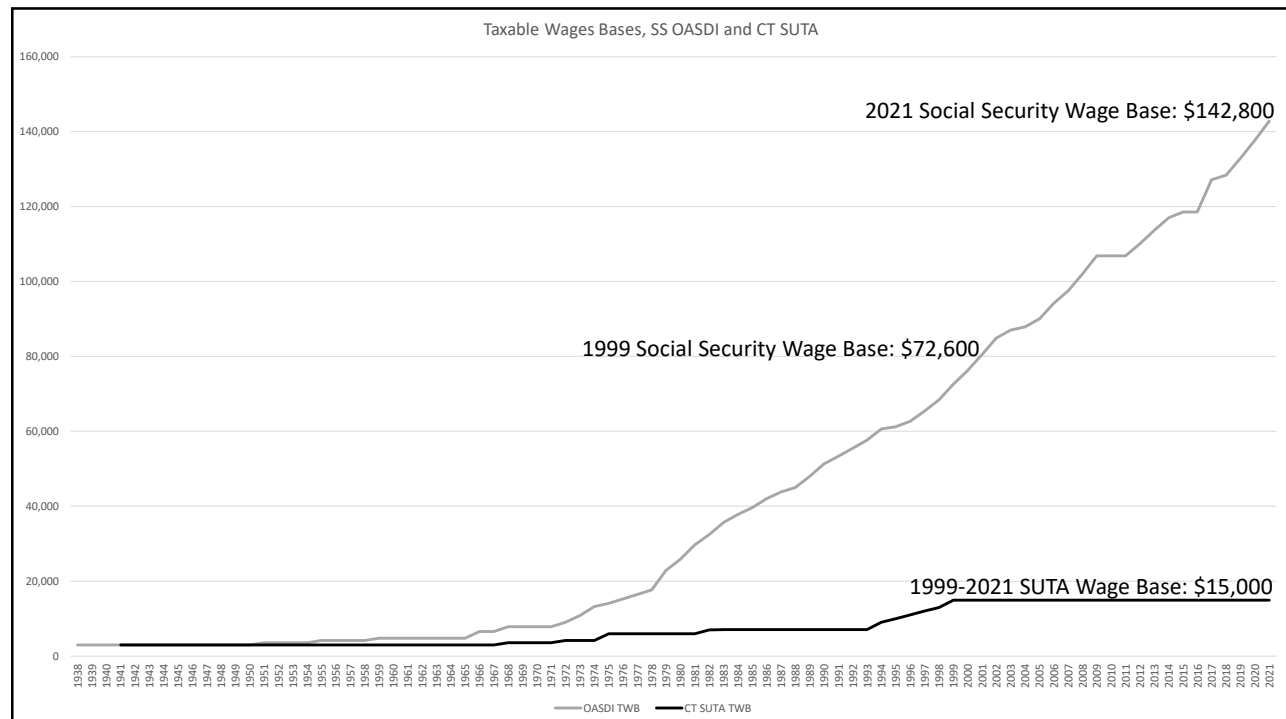
Taxable Wage Base Background

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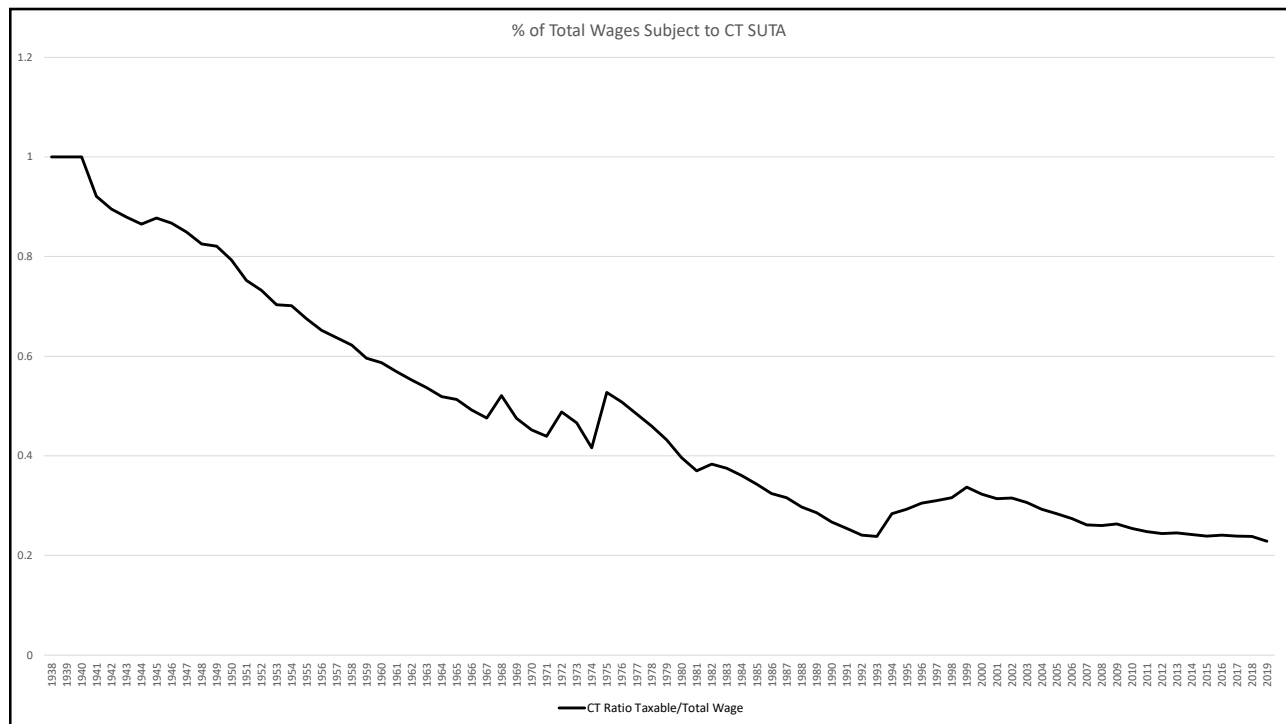
The UI Taxable Wage Base Has Stagnated

- Flat for 22 years
 - A 32% decrease in real dollars
 - Increasingly divorced from benefits
 - Second longest flatline in program history
- Social Security and Unemployment Insurance were born in the same 1935 law. Social Security's taxable wage base increased more *last month* than CT SUTA has increased in 23 years or FUTA has increased in its 86-year history
- Only 22.9% of wages are subject to the tax
 - A record low
 - Only 7.5% of personal income
- We fund almost the entire program by taxing wages below the standard deduction

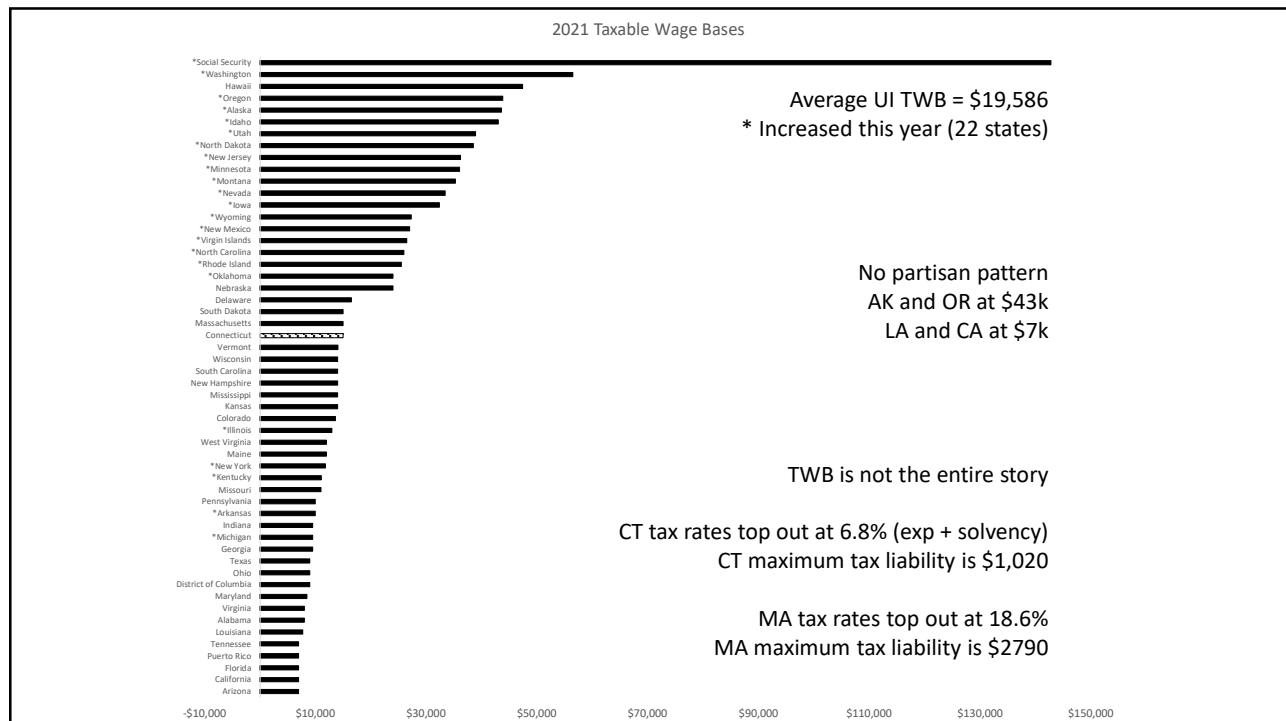
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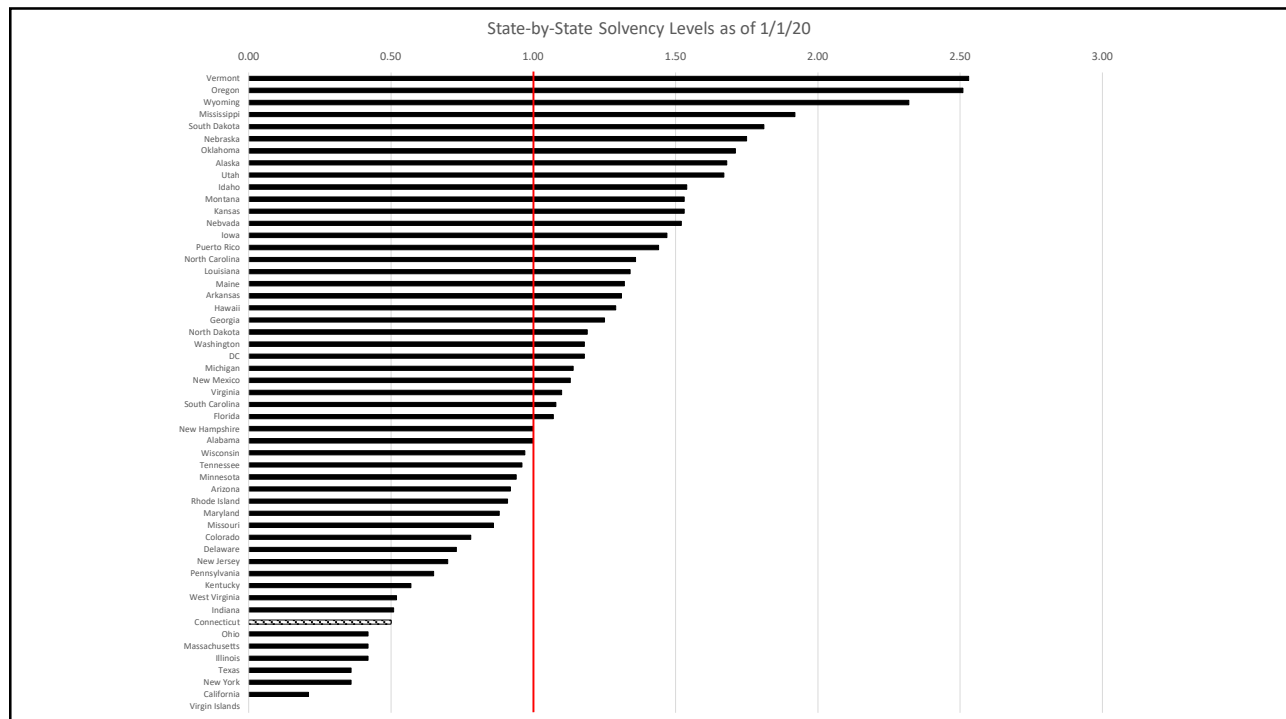
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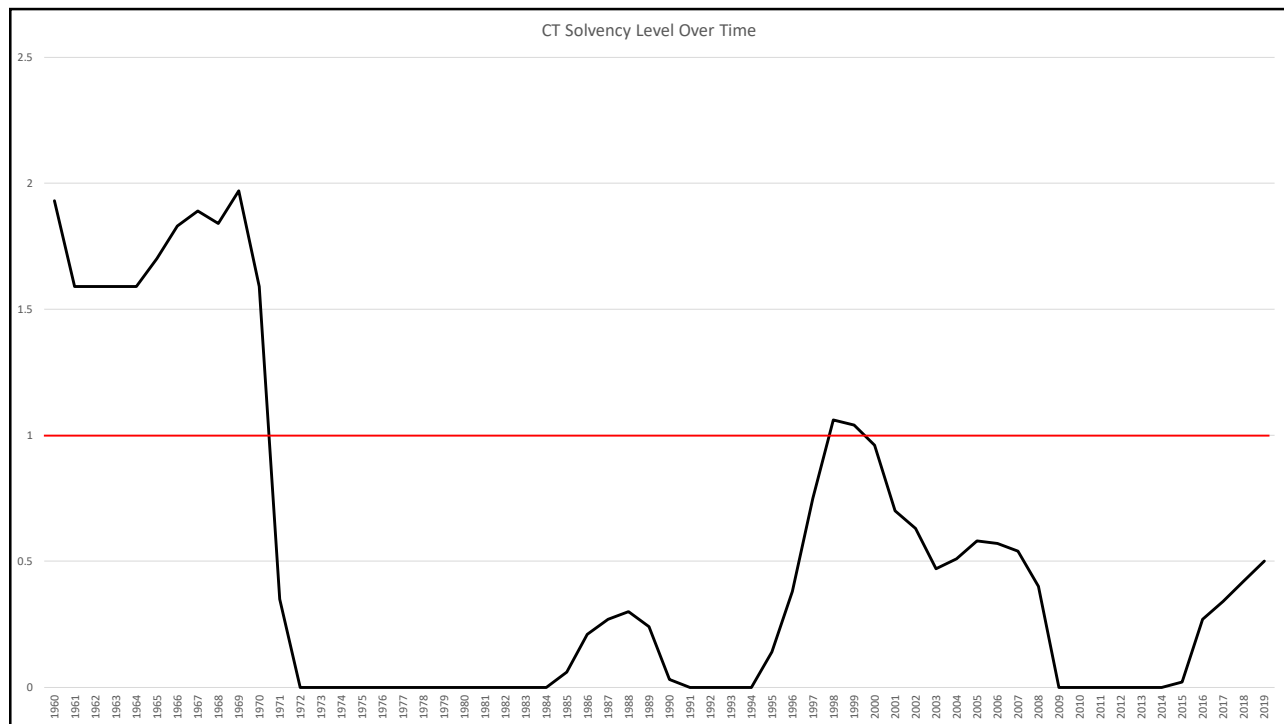
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(1) Perennial Insolvency Harms Businesses, Workers and the Economy

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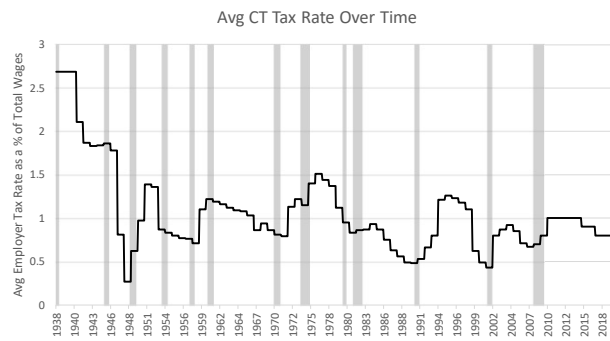
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Insolvency Increases Costs on Business and Limits Benefits to Workers

State	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019
Arizona				0.3%							
Arkansas				0.3%	0.6%	0.9%					
California				0.3%	0.6%	0.9%	1.2% ³	1.5% ³	1.8% ³	2.1% ³	
Connecticut				0.3%	0.6%	0.9%	1.7% ¹	2.1% ¹			
Delaware				0.3%	0.6%						
Florida				0.3%	0.6%						
Georgia				0.3%	0.6%	0.9%					
Illinois				0.3%							
Indiana		0.3%	0.6%	0.9%	1.2% ³	1.5% ³					
Kentucky				0.3%	0.6%	0.9%	1.2% ¹				
Michigan	0.3%	0.6%	0.9%								
Minnesota				0.3%							
Missouri				0.3%	0.6%	0.9%					
Nevada				0.3%	0.6%						
New Jersey				0.3%	0.6%						
New York				0.3%	0.6%	0.9%	1.2% ¹				
North Carolina				0.3%	0.6%	0.9%	1.2% ¹				
Ohio				0.3%	0.6%	0.9%	1.2% ¹	1.5% ¹			
Pennsylvania				0.3%							
Rhode Island				0.3%	0.6%	0.9%					
South Carolina		0.3%	0.0% ²	0.0% ²	0.0% ²	0.0% ²					
Vermont				0.3%							
Virginia				0.3%							
Wisconsin				0.3%	0.6%	0.9%					

No Interest-Free Borrowing

- Starting in 2009, CT borrowed \$1.25 billion
- Took 6 years to repay , came with extra \$85M in interest
- No free lunch – we forward fund or face the consequences
- Leads to items like 31-231a limit on benefit increases

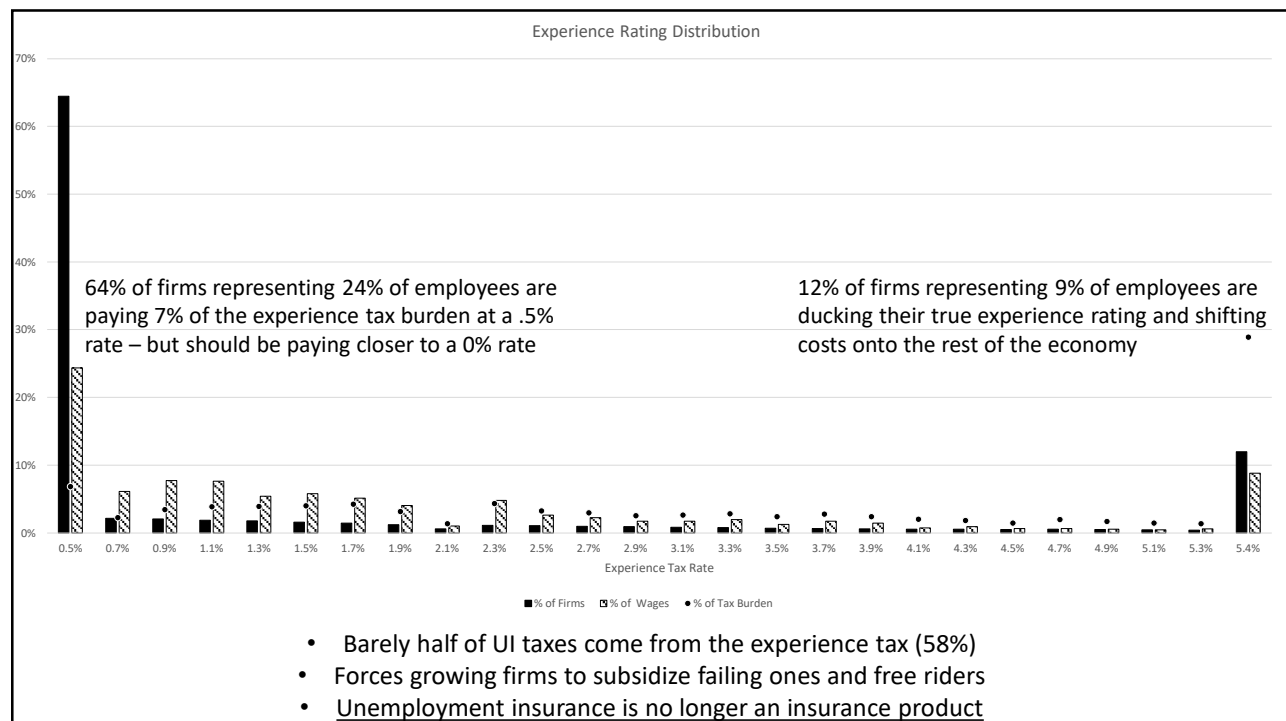


SUTA Hikes During Recessions

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(2) Experience Rating is Inadequate

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(3) Regressive Rates Burden Small Business and Low-Income Families

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- The small taxable wage base means small businesses pay more
 - The average effective tax rate for companies with fewer than 500 employees is .83%
 - The average effective tax rate for companies with 500 or more employees is only .53%
- The statutory incidence is on employers, but the economic incidence is split
- To the extent it falls on workers, minimum-wage earners contribute at least as much as those in the 1%.
 - The average employer contributes \$720 in state UI taxes per employee: 3.4%+1.4% of \$15,000
 - Regressive rates: 3% for a minimum-wage worker (\$24,000) / .48% for a 90% worker (\$114,000)
 - Taxing employers leads to a partial double tax on 191,000 residents and full double tax on 2,000
 - Misaligned benefit/contribution bases: \$231/wk at minimum wage / \$667 at 90%

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All 3 Problems Have the Same Solution: Broaden the Base and Reduce the Rates

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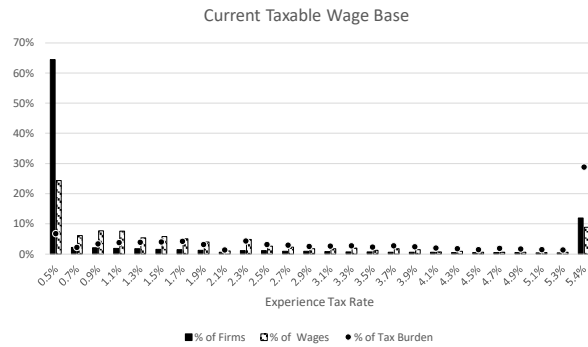
New TWB Tied to Maximum Weekly Benefit Rate

- Aligns contributions and benefit bases (2019=\$649/wk * 2 * 52)
 - Indexed to preserve alignment over time
- Broader base, reduced rates
 - Experience rating: .5%-5.4% → 0%-5.4%
 - Solvency tax: 0% or 1.4% → 0% or .2% or .5%
- Benefits majority of firms, even before benefit reforms
 - At revenue-neutral solvency rate, taxes decrease for 84% of firms representing 66% of employees
 - At maximum solvency rate, taxes decrease for 68% of firms representing 54% of employees
 - Once solvency is established, taxes decrease for 91% of firms representing 92% of employees
- Improves Revenue Forecast
 - At maximum solvency rate, revenues increase from \$678M to \$741M

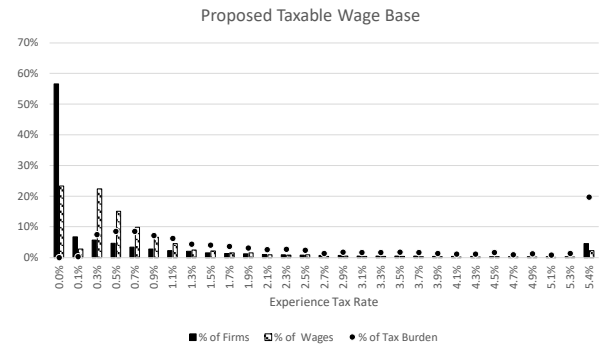
	Total Revenue	Experience Revenue	Solvency Revenue	Exp %
Current Rules	\$677,936,577	\$391,980,249	\$286,037,280	58%
New TWB @ .38% Solvency Rate	\$677,936,933	\$468,146,977	\$209,789,957	69%
New TWB @ .5% Solvency Rate	\$741,453,330	\$468,146,977	\$273,306,353	63%

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Restores Power and Fairness to the Experience Rating System



Experience Tax Revenues from Sampled Firms: \$365,109,203



Experience Tax Revenues from Sampled Firms: \$437,138,264

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Benefit Reforms + Recession Proofing

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ESAB-Endorsed Benefit Reforms

- Make all severance pay allocable
 - Already allocated to for many claimants
 - Claimants receiving severance have an average weekly benefit 54% higher than other claimants
- Temporarily freeze maximum weekly benefit amount
 - CT: \$667; U.S. Avg: \$468; MA: \$823; NJ: \$713; NY: \$504; RI: \$586
- Raise minimum base period earnings
 - CT: \$600; U.S. Avg: \$2,568; MA: \$4,700; NJ: \$3,440, NY: \$3,600, RI: \$4,200
- Total benefit reduction \$58,000,000

	Contributions	Benefits	Net Impact to Fund
Allocate All Severance Pay	(\$34,907,900)	(\$50,000,000)	\$15,092,100
Freeze MWBR (1 year)	(\$4,371,802)	(\$6,261,732)	\$1,889,930
Increase Minimum Earnings	(\$872,700)	(\$1,250,000)	\$377,300

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Recession Recovery Measures

- Halve sectors' experience rate increases during economic shocks
 - Modeled on EO 7W and HB 5377/5954
- Reduce maximum solvency tax rate during recessions
- Noncharge for Shared Work during recessions
 - Modeled on CARES Act

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This law, too, represents a cornerstone in a structure which is being built but is by no means complete. It is a structure intended to lessen the force of possible future depressions. It will act as a protection to future Administrations against the necessity of going deeply into debt to furnish relief to the needy. The law will flatten out the peaks and valleys of deflation and of inflation. **It is, in short, a law that will take care of human needs and at the same time provide the United States an economic structure of vastly greater soundness.**

—FDR, Signing the Social Security Act of 1935

Programs long thought of as merely labor welfare, such as shorter hours, higher wages, and a voice in the terms and conditions of work, **are really essential economic factors for recovery.**

—U.S. Secretary of Labor Francis Perkins

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